

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-14 ISO-00 EURE-00 SSO-00
NSCE-00 INRE-00 USIE-00 SP-02 AID-05 EB-07 NSC-05
EPG-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 FRB-01
INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 IGA-02
AGR-10 FEAE-00 DODE-00 PM-04 H-02 L-03 PA-02
PRS-01 /135 W

-----081704Z 117713 /41

O R 081649Z JUN 77

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 4785

TREASURY DEPT WASHDC IMMEDIATE

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION GENEVA

USDOC WASHDC

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USEEC ALSO FOR EMBASSY

USOECN ALSO FOR EMBASSY

USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A

TAGS: ECON, UK

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SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD JUNE 2ND - 8TH

SUMMARY. JUBILEE CELEBRATIONS BECALMED ECONOMIC ACTIVITY.
THERE WAS A SETBACK TO THE THIRD-YEAR OF INCOMES POLICY
AFTER CRITICAL REMARKS BY TRADE UNION LEADER, JACK JONES.
HOWEVER, SURVEY EVIDENCE CONFIRMS THAT CONFIDENCE CONTIN-
UES TO GATHER STRENGTH. END SUMMARY

1. FINANCIAL TIMES BUSINESS SURVEY. THE MONTHLY FINANCIAL TIMES BUSINESS OPINION SURVEY FOR MAY CONTINUES TO SHOW A MORE CONFIDENT OUTLOOK. CONSUMER OPTIMISM IS REFLECTED IN STRONG EXPORT PROSPECTS AND A RISING TREND OF NEW ORDERS. OVER HALF OF THE FIRMS RESPONDING EXPECTED SALES TO RISE BY 5 TO 20 PERCENT OVER THE NEXT TWELVE MONTHS. THE PERCENTAGE OF FIRMS OPERATING AT OR ABOVE TARGET CAPACITY ROSE FROM 65 PERCENT IN FEBRUARY TO 73 PERCENT IN MAY. DEMAND IS STILL THE PRINCIPAL CONSTRAINT ON OUTPUT ALTHOUGH LACK OF SKILLED MANAGERIAL AND FACTORY STAFF ARE CITED AS PROBLEMS BY ABOUT 20 PERCENT OF RESPONDENTS.

INVESTMENT INTENTIONS CONTINUE STRONG WITH 57 PERCENT OF RESPONDENTS EXPECTING TO INCREASE THE VOLUME OF CAPITAL SPENDING IN MAY COMPARED WITH 45 PERCENT IN FEBRUARY. THESE INTENTIONS ARE SUPPORTED BY IMPROVED EXPECTATIONS ON PROFIT MARGINS AND EARNINGS. UNIT COST INCREASES OF 10 TO 14 PERCENT ARE EXPECTED BY ABOUT HALF THE FIRMS RESPONDING WITH THE MEDIAN SET AT 13-14 PERCENT. MEDIAN WAGE COST EXPECTATIONS INDICATE A RISE OF 10-11 PERCENT OVER THE NEXT 12 MONTHS.

2. INCOMES POLICY. ADDING TO HIS PREVIOUS STATEMENTS ON A THIRD YEAR OF INCOMES POLICY. OUTGOING TRANSPORT AND GENERAL WORKERS UNION (TGWU) PRESIDENT. JACK JONES, SUGGESTED THAT THE PRINCIPAL FEATURE OF ANY UNDERSTANDING BETWEEN GOVERNMENT AND ORGANIZED LABOR SHOULD BE STRICT ADHERENCE TO THE 12-MONTH SEPARATION BETWEEN WAGE INCREASES

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GRANTED UNDER PHASE TWO AND WHATEVER FOLLOWS IT. HE RULED OUT ANY SUPPORT FROM HIS UNION FOR A PERCENTAGE NORM GOVERNING PHASE THREE WAGE INCREASES. THE TGWU IS BRITAIN'S LARGEST UNION AND JONES' STAND WILL MAKE A STRICT THIRD YEAR POLICY VERY DIFFICULT TO ACHIEVE. THE EMPHASIS ON MAINTAINING THE 12-MONTH GAP BETWEEN SETTLEMENTS IS DESIGNED TO GAIN THE MAXIMUM ADVANTAGE FROM PHASE TWO. SINCE THE MAIN WAGE BARGAINING PERIOD COMES BETWEEN FEBRUARY AND MAY, PHASE TWO WOULD CONTINUE TO AFFECT WAGES DURING THE FIRST HALF OF 1978.

3. STERLING HAD A QUIET WEEK. THE NERVOUSNESS EVIDENT LAST WEEK HAS DIMINISHED. LONDON MARKETS WERE CLOSED ON

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AGR-10 FEAE-00 DODE-00 PM-04 H-02 L-03 PA-02
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FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 4786
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
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AMCONSUL BELFAST
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MONDAY AND TUESDAY (AS PART OF THE JUBILEE CELEBRATION).
THERE WAS REDUCED ACTIVITY LAST FRIDAY. WITH DEALERS RE-
LUCTANT TO HAVE OPEN POSITIONS OVER THE FOUR-DAY WEEKEND,
ALTHOUGH STERLING FELL IN THE MORNING ON COMMERCIAL SELL-
ING FROM EUROPE AND ROSE IN THE AFTERNOON ON COMMERCIAL
PURCHASES FROM THE U.S. DEALERS STILL EXPRESS CONCERN
ABOUT NARROWED INTEREST RATE DIFFERENTIALS, AND FEARS OF
A WAGE EXPLOSION AND RESURGENCE OF INFLATION LATER THIS
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YEAR AND NEXT IF TRADE UNIONS FAIL TO EXERCISE RESTRAINT
ON PHASE THREE OF INCOMES POLICY. FOR THE MOMENT, HOW-
EVER. STERLING IS TERMED QUIET AND FIRM.

4. EXCHANGE RATE AND GOLD EFFECTIVE

EXCHANGE RATE			
DATE	EXCHANGE RATE (\$)	(DEC. 1971 EQUALS 100)	GOLD (\$)
6/1	1.7195	61.7	144-5/8
6/2	1.7172	61.5	142-1/8
6/3	1.7178	61.6	141-7/8
6/6	MARKETS CLOSED		
6/7	MARKETS CLOSED		
CHANGE 5/31-6/3 DOWN 0.0013 UNCHANGED DOWN 1-1/4			

5. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
6/1	0.90	2.15	4.00
6/2	0.77	2.00	3.60
6/3	0.80	1.95	3.87
6/6	MARKETS CLOSED		
6/7	MARKETS CLOSED		
CHANGE 5/31-6/3 NAR. 0.42 NAR. 0.80 NAR. 0.76			
(ALL FIGURES IN CENTS)			

6. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
6/1	5-3/8	5-7/8	6-3/8
6/2	5-7/8	6	6-1/4
6/3	5-5/8	6	6-1/4
6/6	N/A	N/A	N/A
6/7	N/A	N/A	N/A
CHANGE 5/31-6/3 UNCHANGED DOWN 1/8 DOWN 1/8			

7. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST RATE DIFFERENTIAL

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DATE	
6/1	2-3/16
6/2	1-29/32
6/3	2-1/32
6/6	MARKETS CLOSED
6/7	MARKETS CLOSED
CHANGE 5/31-6/3 NARROWED 1/16	

8. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
6/1	7-1/2	8	8-27/32
6/2	7-5/16	7-25/32	8-5/8
6/3	7-5/16	7-7/8	8-3/4
6/6	MARKETS CLOSED		
6/7	MARKETS CLOSED		

CHANGE 5/31-6/3 DOWN 3/8 DOWN 3/16 DOWN 5/32

9. THE MINIMUM LENDING RATE (MLR) WAS UNCHANGED AT 8 PERCENT FOLLOWING FRIDAY'S TREASURY BILL AUCTION. THE TREASURY BILL RATE ROSE BY 0.0196 PERCENT TO 7.4533 PERCENT AS THE 500 MILLION POUNDS IN BILLS TENDERED ATTRACTED BIDS OF 785.39 MILLION POUNDS. THIS WEEK 300 MILLION POUNDS IN BILLS WILL BE OFFERED REPLACING A SIMILAR AMOUNT WHICH WILL BE MATURING.

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Disposition Approved on Date:
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